1996

Annual Report

to the Legislature

Health Care Authority

April 1997

HCA 62-100 (4/97)

Overview of the Health Care Authority

The Mission of the Health Care Authority

Through the prudent use of the state's resources, the Health Care Authority's (HCA's) mission is to assure access to quality and affordable health care coverage for public employees, retirees, Basic Health enrollees, and others authorized by the Legislature.

The HCA offers choice of coverage, models effective purchasing and equitable payment practices, effectively advises the state of Washington in its employer role regarding health care purchasing issues, strengthens health care policy formulation, and enhances the quality of health care delivery and primary care access in Washington State.

Public Employees Benefits Board (PEBB)

Services:

- Comprehensive medical and dental benefits
- Life and long-term disability insurance

Provided for:

- State employees and retirees
- School district employees and retirees
- Employees of political subdivisions

Delivered by:

- Managed care plans
- Uniform Medical Plan (state's preferred provider organization administered by the Health Care Authority)
- Managed dental plans
- Uniform Dental Plan
- Life and long-term disability insurers

Washington Basic Health Plan

Services:

- Health benefits package including preventive care and prescription drugs
- Expanded benefits (including dental and vision) for children at or below 200 percent of federal poverty level through a partnership with Medicaid

Provided for:

- State residents who are not eligible for Medicare
- Those at or below 200 percent of the poverty level receive assistance with premium costs

Delivered by:

- Managed care plans that contract with Basic Health

Primary Health Care (Formerly Community Clinics)

Services:

- Grants to provide medical, dental, and migrant health services

Provided for:

- Populations without, or with limited access to, comprehensive medical or dental services. These populations include low income, homeless, refugees, elderly, migrant, and other minority populations

Delivered by:

- Urban and rural community clinics

Summary of Rates

PEBB	Change from 1996 to 1997
Amounts paid to health plans (contractual guarantee)	2.9 percent increase
Rates charged to retirees not eligible for Medicare (27% of retirees)	3 percent increase on average
Rates charged to retirees eligible for Medicare (73% of retirees)	13 percent increase on average
Premium contribution charged to state higher education employees	0 percent

Basic Health	Change from 1996 to 1997
Rates paid to health plans (contractual guarantee)	2.9 percent increase
Rates charged to enrollees under 125% of federal poverty level	0 percent increase
Rates charged to enrollees over 125% of federal poverty level	2.9 percent increase

HCA Total Enrollment (As of December 1, 1996)

Product Line	Total Enrollees (including Spouse & Dependents)
State Actives	225,883
School District Actives	4,772
Political Subdivision Actives	4,825
State Retirees	29,028
School District Retirees	24,408
COBRA and Others	2,494
Subtotal PEBB	**291,410**
Basic Health Reduced Premium	127,447
Basic Health Plus Children	52,328
Basic Health Full Premium	15,742
Subtotal BHP	**195,517**
TOTAL	**486,927**

Does not include persons served through Primary Care program.

1996 Major Highlights

Focus on Service and Quality

As the state's purchaser of health care, the HCA's key responsibility is the management of multi-million dollar contracts. However, the agency would be remiss to ignore the personal needs of the nearly half million Washington residents who receive their health, dental, and other insurance through the HCA. The agency has emphasized this by requiring customer service, process improvement, and cultural diversity training for all HCA staff.

To better handle the increasing telephone traffic from enrollees and potential enrollees (over 100,000 calls per month during peak periods), the HCA in 1996 installed a state of the art "interactive voice response" system which helps callers get information or applications without the assistance of a live benefits specialist.

However, the HCA recognizes the need for personal assistance, and conducts benefit fairs and retiree presentations during open enrollment (over 10,000 people attended the fairs in 1996), as well as training sessions and other presentations to groups or political subdivisions interested in providing public employees or Basic Health coverage.

Not satisfied with merely providing quality service on the administrative end of health services, in 1996 the HCA embarked on a joint project with the Department of Social and Health Services and the Department of Health to review the performance of the plans which contract with the state. Each plan is evaluated in six different categories to determine if enrollees are receiving good quality care, and have adequate access to that care. Going beyond its role to ensure that state dollars are spent according to contract, the HCA is taking steps to assure that the state is getting maximum value for those dollars.

Risk Adjustment Model Tested for Implementation

The agency has begun testing and refining the models which adjust the premiums paid to health care plans based on the relative risk of their enrollees. The project, funded by the Robert Wood Johnson Foundation, expands the risk calculation to include COBRA and retiree status and measures of health status that are based on enrollees' health care experience. Eighteen of the 20 PEBB plans currently under contract volunteered to participate in model testing. These risk adjustment enhancements are expected to be reflected in plan rates by January 1998.

HCA Conducts Legislative Studies

Reductions to Basic Health Portion of Health Services Account (HSA). The HSA study researched potential Basic Health adjustments to achieve reductions in Health Services Account expenditures. Among the various methods and adjustments for reducing Basic Health expenditures, eight were recommended, giving a potential range of savings from negligible to over $60 million. The recommended adjustments were selected based on the need to maximize savings, minimize negative impacts on enrollees, ensure consistency with the intent of the program, continue using a market-based rather than regulatory approach, and administer Basic Health as an insurance program rather than an entitlement.

Uniform Medical Plan (UMP). The UMP study was designed to determine the value of administering a benchmark employer-managed plan to promote competition among managed care plans. The study found that state operation of the UMP provides experience on a range of policy and delivery issues, as well as benchmarking opportunities not available from contracted health plans. At the same time, a study conducted by the Health Care Policy Board recommended that the HCA continue to self-fund the UMP, recognizing the value in maintaining the benchmarking qualities and program infrastructure.

Medical Savings Account (MSA) / Vouchers. The MSA study researched possible methodologies to allow state employees to enroll with health carriers through a voucher process and to include an employee option for participation in a medical savings account. Because the study provided technical analysis on financial impacts, administrative questions, and legal issues, no recommendations were made.

Implementation of Managed Competition. The managed competition study was designed to provide a historical overview of the PEBB program changes implemented for 1996, and to monitor the impacts of these changes on employees' plan choices and costs of PEBB health benefits. Nearly three times the usual number of state employees switched to a different plan, and employee choices showed clear sensitivity to price. Overall, state costs for PEBB medical coverage of state employees dropped 10.4 percent from 1995 to 1996, due to a combination of lower plan bids, increases in copayments and deductibles, and monthly premium contributions from employees.

Primary Care Program Serves Diverse Populations

The primary care program provides access to medical and dental prevention and illness care for under-served populations in Washington State. The program is a public/private cooperative effort that provides services to transitional and other populations who would otherwise seek treatment at emergency rooms, ultimately at much greater expense to taxpayers.

- In 1996, the primary care program provided services for 79,446 medical patients and 23,202 dental patients. These patients had incomes at or below 200 percent of the poverty level, and had no other insurance coverage, such as Medicaid or Basic Health.
- Over 57 percent of the patients served through the primary care program are people of color, and Hispanics are the largest non-English speaking population served. Community health clinics are staffed by bilingual and multilingual workers.
- Migrant seasonal farm workers represent about 14 percent of total primary care patients. Another seven percent of the patients are homeless.
- The agency is using $1 million of its current biennial funds for special projects to increase this population's access to oral health services. Dental care is one of the most critical needs among low-income uninsured populations.

Plans Begin for Long-Term Care Product

Increasing national interest in the cost of nursing homes and other long-term care services prompted the 1996 Washington State Legislature to adopt a measure under which a voluntary long-term care insurance plan will be available to public employees, retirees, and their parents before January 1, 1998.

For several months, HCA staff met with representatives of employee and retiree groups, the insurance industry, and long-term care providers. This technical advisory committee then made recommendations to the Public Employees Benefits Board on benefit design, eligibility, underwriting, marketing, and consumer education. A request for bids was scheduled to be issued before mid 1997, with plans to offer the product well before the legislative deadline.

Statement of Revenues, Expenses, and Fund Balance

1993-95 Actuals	PEBB	Caregivers	BHP Non-Subsidized	BHP Subsidized	Primary Care	Health Care Planning	Total Customer Lines
Revenues							
Premium Charges/Other	$838,733,875	$125,191	$3,456,663	$ 16,295,720	$ -	$ -	$858,611,449
Direct Appropriations	-	-	-	105,431,917	11,811,156	1,427,000	118,670,073
Underspend of Appropriations	-	-	-	(29,862,320)	(14,968)	(34,474)	(29,911,762)
Total Revenues	**838,733,875**	**125,191**	**3,456,663**	**91,865,317**	**11,796,188**	**1,392,526**	**947,369,760**
Expenditures							
Life/LTD Benefits	8,177,295	-	-	-	-	-	8,177,195
Dental Benefits	89,073,195	-	-	-	-	-	89,073,295
Medical Benefits	750,801,060	112,463	3,138,121	80,476,708	-	-	834,528,352
Subtotal Benefits	848,051,550	112,463	3,138,121	80,476,708	-	-	931,778,842
Community Clinics Grants	-	-	-	-	11,265,927	-	11,265,927
Administration	11,428,586	12,728	239,465	11,388,609	530,261	1,392,526	24,992,175
Total Expenditures	**859,480,136**	**125,191**	**3,377,586**	**91,865,317**	**11,796,188**	**1,392,526**	**968,036,944**

1995-97 Biennium Budget	PEBB	Caregivers	BHP Non-Subsidized*	BHP Subsidized	Primary Care	Health Care Planning	Total Customer Lines
Revenues							
Premium Charges/Other	912,003,325	-	29,448,579	100,500,054	-	-	1,041,951,958
Direct Appropriations	-	-	-	215,182,208	12,408,866	2,227,318	229,818,392
Total Revenues	**912,003,325**	**-**	**29,448,579**	**315,682,262**	**12,408,866**	**2,227,318**	**1,271,770,350**
Expenditures							
Life/LTD Benefits	9,014,083	-	-	-	-	-	9,014,083
Dental Benefits	117,150,677	-	-	-	-	-	117,150,677
Medical Benefits	776,529,423	-	27,234,643	291,125,811	-	-	1,094,889,877
Subtotal Benefits	**902,694,183**	**-**	**27,234,643**	**291,125,811**	**-**	**-**	**1,221,054,637**
Community Clinics Grants	-	-	-	-	11,916,785	-	11,916,785
Agent/Broker Commissions	-	-	100,000	1,026,000			1,126,000
Administration	16,030,925	-	1,853,308	23,530,451	492,081	2,227,318	44,134,083
Total Expenditures	**$918,725,108**	**-**	**$29,187,951**	**$315,682,262**	**$12,408,866**	**$2,227,318**	**$1,278,231,505**
Excess of Revenue over Expenses	(6,721,783)	-	1,519,278	-	-	-	
Beginning 1995-97 Fund Balance	27,935,138		79,078	-	-	-	-
Ending 1995-97 Cash Balance	21,213,335	-	1,598,356	-	-	-	

*BHP Nonsubsidized revenue is reported on a cash basis

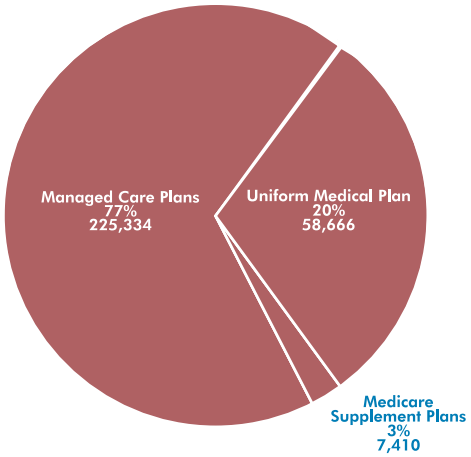
1995-97 Admin. as Percent of Total Expenses	PEBB	Caregivers	BHP Non-Subsidized	BHP Subsidized	Primary Care	Health Care Planning	Total Customer Lines
	1.7%	-	6.4%	7.5%	4.0%	-	3.5%

The state of Washington budgets and reports expenses based on fiscal years ending June 30. This 1995-97 budget refers to those fiscal year ends.

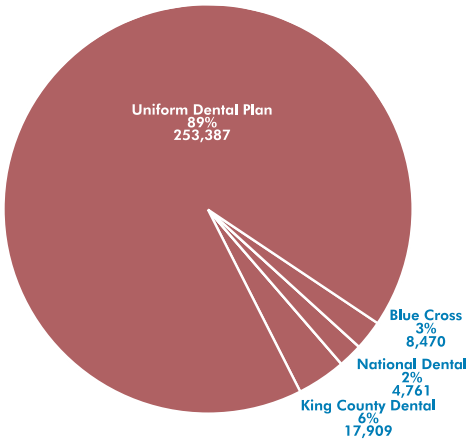
Public Employees Benefits Board

The Public Employees Benefits Board program provides medical, dental, life, and long-term disability insurance for nearly 300,000 members. Members include all state and higher education employees, employees from some school districts and political subdivisions, retirees from state agencies and some school district retirees, as well as the dependents of these members.

Medical Plan Enrollment as of December 1, 1996



Dental Plan Enrollment as of December 1, 1996



Managed Competition Successfully Implemented

A modified managed competition approach was successfully implemented for all state and higher education employees January 1, 1996. The PEBB implemented this approach, using employee deductions, to address an 18 percent appropriation reducton. Managed competition seeks to hold down costs by encouraging consumer choice based on plan price, quality of service, and access. While striving to reach targeted savings levels, the effort maintained the PEBB's long-time goal of ensuring fair competition between health plans, while maintaining employee protection and equity across the state.

For years, employees have selected plans with no regard to price. While nearly all employees had the opportunity to select a "free" plan in 1996, plans which submitted more expensive bids required a small monthly employee contribution. The higher a plan's bid, the more an employee had to pay for that plan.

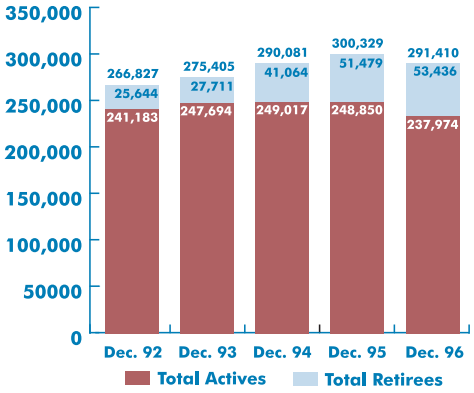
As a result, approximately 20 percent of all active state employees switched to a different PEBB plan. As expected, employees in higher cost plans tended to switch to lower cost plans, while those in lower priced plans usually remained with their previous plan.

To ease the impact of payroll deductions, the HCA developed a pre-tax contribution plan which allows employee premium contributions to be taken with pre-tax dollars, providing federal tax advantages to state employees, as well as to the state.

HCA and DRS Consolidate Retiree Insurance

In collaboration with the Department of Retirement Systems (DRS), the Health Care Authority conducted an analysis to determine the most efficient delivery of insurance services to retirees. The agencies agreed to consolidate all retiree insurance services within the HCA to eliminate duplication of services and to streamline operations and customer service. The project transferred some 33,000 retirees and their records over to the HCA with no interruption in service.

PEBB Enrollment



1996-97 Monthly Employee Contributions For State Employees

PEBB Plans *Italicized* plans are free to employees and eligible dependent children.	Employee	Employee & Spouse	Employee & Child(ren)	Employee, Spouse, & Child(ren)
Kaiser	$ 0	$10	$ 0	$10
Virginia Mason	$ 0	$10	$ 0	$10
HMO of Oregon	$ 0	$10	$ 0	$10
Whatcom Medical Bureau	$ 0	$10	$ 0	$10
NYLCare	$ 0	$10	$ 0	$10
PacifiCare	$ 0	$10	$ 0	$10
King County Medical	$ 0	$10	$ 0	$10
HMO Washington	$ 0	$10	$ 0	$10
Kitsap Physicians Service	$ 0	$10	$ 0	$10
Good Health Plan	$ 0	$20	$ 0	$20
Medical Service Corporation	$ 0	$20	$ 0	$20
SelectCare	$ 0	$20	$ 0	$20
Group Health Coop.	$ 0	$20	$ 0	$20
Options Health Care	$ 1	$22	$ 2	$23
Health Plus	$ 2	$24	$ 4	$26
Skagit County	$ 3	$25	$ 5	$27
QualMed	$ 5	$30	$ 9	$33
Uniform Medical Plan	$ 6	$32	$10	$36
Pierce County Medical	$ 9	$38	$16	$45
Blue Cross of WA & AK	$22	$65	$39	$82

There are no premium charges for dental, basic life, and basic LTD.

Public Employees — Uniform Medical Plan (UMP)

The Uniform Medical Plan is a self-funded, preferred provider plan administered by the Health Care Authority and is the only preferred provider plan available to PEBB members. The preferred provider network consists of 87 acute care hospitals, more than 7,900 physicians, and over 3,100 limited license physicians/non-physicians. Currently, 83 percent of the physicians in Washington State contract with the Uniform Medical Plan as a preferred provider.

Enrollment Highlights

The advent of managed competition for state employees changed the face of the UMP. For the first time in its history, UMP lost its standing as the largest plan, but still claims the second largest enrollment in the PEBB. With implementation of monthly payroll contributions, some 10,000 employees switched to other plans. UMP enrollees were nearly twice as likely to switch health plans as enrollees in the managed care plans. Research indicated that higher premium contributions, along with a substantial change in the deductible, were key factors in causing members to leave. The research also showed that the wide selection of providers and the ability to self-refer were factors that prompted members to stay.

Provider Network Expands

During 1996, the UMP's statewide provider network expanded to over 11,000 preferred providers, making it one of the largest in the state. Expansion of the network not only gives increased access to subscribers, but also offers an opportunity to screen providers for quality assurance standards. It also more effectively controls reimbursement costs for the program as the preferred providers agree to participate under a set fee schedule.

The UMP was able to successfully re-sign contracts with all its participating hospitals after designing a new fee schedule.

In addition to the general expansion of the network, the UMP created specific credentialing criteria for alternative providers, and opened the network to naturopathic physicians and acupuncturists.

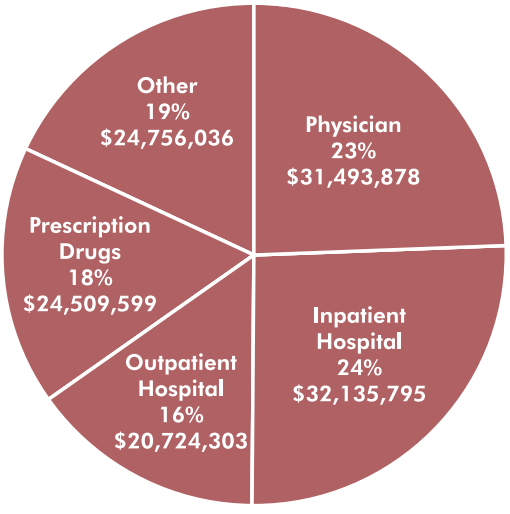
New Reimbursement Improvements Developed

The UMP continued to chair the Reimbursement Steering Committee (RSC) which, with the Department of Labor and Industries and Medical Assistance Administration (Medicaid), ensures effective coordination in the development of reimbursement policies and payment schedules for all state payers.

During 1996, the UMP, working collaboratively through the RSC, developed new reimbursement policies and a fee schedule for prosthetics, orthotics, and ostomy supplies to more effectively control costs, and make reimbursements more appropriate and equitable. The UMP then began recontracting with durable medical equipment supply companies to take advantage of the new payment schedules.

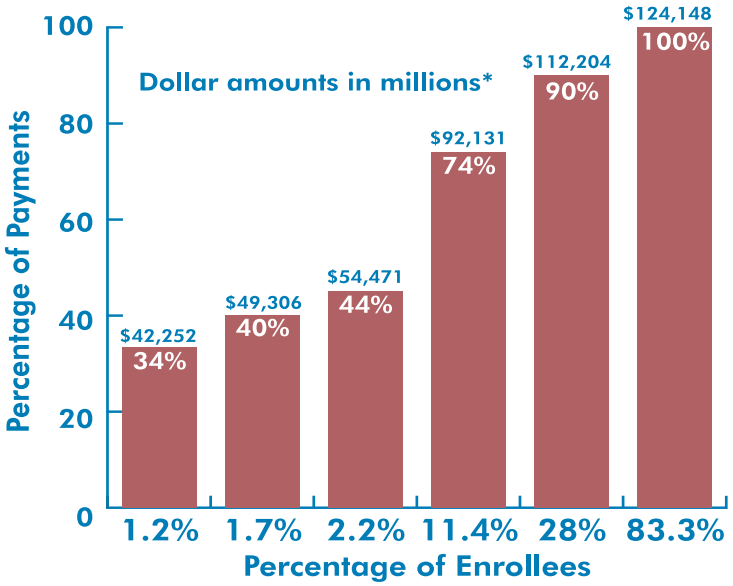
In addition, the RSC began analysis for the development of a new outpatient prospective payment system for hospitals and ambulatory surgical centers.

UMP 1995 Payments by Provider Category



Total: $133,619,611

Distribution of 1995 Payments



*Figures do not include $9.4 million in mail order pharmacy payments.

SOURCE: UMP Utilization database and Merck-Medco Managed Care, L.L.C.

The Washington Basic Health Plan

The Washington Basic Health Plan is a state-sponsored health insurance program for any Washington state resident who is not eligible for Medicare. All members pay a portion of their monthly premium cost. This cost varies depending on income, family size, and choice of health plan. The state offers reduced premiums for individuals and families with lower incomes. The program is funded primarily through taxes collected on cigarettes and alcohol. Basic Health Plus is a Medicaid program for children in reduced income households. It provides added benefits, and there are no copays.

Rapid Basic Health Growth Results in Reservation List

Demand for Basic Health coverage in 1996 surpassed growth records established in 1995. In September, when the number of reduced premium enrollees finally reached budgetary limitations (approximately 130,000 members), Basic Health was forced to limit new enrollment.

A reservation list was established to control reduced premium enrollment. Basic Health continues to accept new members in the full premium, Basic Health Plus, employer group, home care worker and foster care programs.

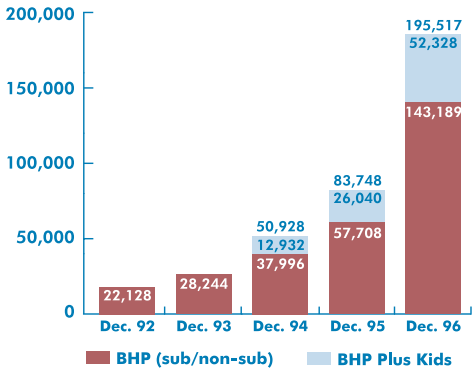
As space became available, people on the reservation list were able to enroll in the reduced premium program, but nowhere near the level of demand. By the end of calendar 1996, there were 65,000 people on the reservation list, representing some 40,000 Washington families.

Enrollment Highlights

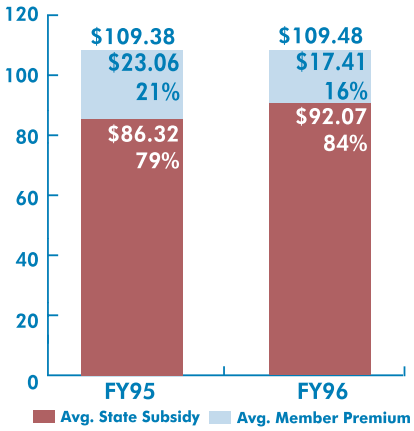
Enrollment in Basic Health reached new records in 1996. Total enrollment (including full premium and Basic Health Plus) for December 1, 1996 is 195,517 -- more than double the amount from 1995.

Basic Health continues to make inroads to underserved populations. Overall minority enrollment was up in 1996, with increases recorded in all sectors of the state's minority population.

Basic Health and Basic Health Plus Enrollment Growth



Basic Health State Subsidy



Cooperative Effort Results in Massive Growth

A statewide coalition of local, state, and private organizations helped set new enrollment records for Basic Health. The effort to locate uninsured Washington residents and inform them about the program was successful beyond most expectations.

One program involved in the expansion was the Washington State Department of Health's Women Infant and Children (WIC) program. An appropriation from the Legislature helped the program educate families about Basic Health and Medicaid.

Other state agencies became involved by helping Basic Health to locate potential enrollees, and in many cases, educate their own clients about the program. State agencies involved in the coalition include the Department of Social and Health Services; the Department of Health; the Department of Employment Security; the Department of Licensing; the Superintendent of Public Instruction; the Statewide Health Insurance Benefits Advisors (SHIBA) program of the Office of the Insurance Commissioner; the Office of Minority and Women's Business Enterprises; and the various state commissions on minority affairs.

Also involved in the cooperative effort were the Friends of Basic Health, local coalitions in Spokane, Vancouver, and Kelso, the Washington State Hospital Association, contracting health plans, numerous local school districts, local health districts, and many religious organizations which worked with Basic Health to disseminate information to targeted populations.

Agents and Brokers Trained to Sign Up New Enrollees

1996 marked the first year insurance agents and brokers could earn commissions selling Basic Health. The advent of the reservation list came only a few months after agent and broker training sessions were completed, but some agents continue to assist applicants waiting for the spaces that become available.

New Populations Join Basic Health

Sparked by mandates from the Legislature, Basic Health became available to several new populations in 1996. A program to actively encourage enrollment of employer groups got underway through a health service alliance contractor which serves as the group accounts administrator.

Funding from the Legislature also makes Basic Health available now to foster parents, personal care workers, and home care workers. Several projects were initiated to locate and educate potential enrollees in these three groups.

1997 Average Adult Premium Charges

Income Band as Percent of Federal Poverty Level (FPL)	1997 Average Premium Change to Adults
0-<125% FPL	$ 10.00
125-<140% FPL	$ 12.87
140-<155% FPL	$ 19.78
155-<170% FPL	$ 29.14
170-<185% FPL	$ 38.45
185-200% FPL	$ 47.85

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Helen Carlstrom
K-12 Retiree Representative

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William Dowling, Ph.D.
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Marc Provence
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Leah Layne
Columbia Basin Health Association

Aubrey Davis
Group Health Cooperative

Thomas Milne
Southwest Washington Health District

John A. Moyer, M.D.
Former Washington State Senator

Robby Stern
Washington State Labor Council

* Nonvoting member

Health Plans Offered

Member Plan Choices (as of December 1, 1996)

Plan Choice	PEBB Total Enrollees	Basic Health Total Enrollees
Blue Cross	9,889	40,205
Good Health Plan	10,007	17,996
Group Health Cooperative	82,843	19,039
Group Health Northwest	†	15,870
Health Maintenance of Oregon	532	1,973
Health Plus	12,874	Not Offered
HMO Washington	937	Not Offered
Kaiser	4,612	6,427
King County Medical Blue Shield	28,598	31,590
Kitsap Physicians Service	2,273	5,006
Medical Service Corporation	5,643	13,923
NYLCare	2,117	3,641
Options	5,565	Not Offered
PacifiCare of Washington	16,085	8,133
Pierce County Medical	5,178	14,251
Qual-Med Washington Health Plan	28,693	Not Offered
SelectCare	1,439	1,504
Skagit County Medical Bureau	1,182	3,343
SW Washington Medical Direct	Not Offered	1,553
Virginia Mason Health Plan	4,892	5,166
Whatcom Medical Bureau	1,975	3,729
UMP	58,360	Not Offered
Blue Cross (Medicare Supplement)	7,410	Not Offered
Total	**291,410**	**195,517††**

† Offered through Group Health Cooperative
†† Total reduced premium enrollees, excluding children served through BHP Plus = 130,000

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